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Audit committee chair and financial reporting timeliness: A focus on financial, experiential and monitoring expertise

Abstract

In this study we examine the impact of audit committee chair financial, experiential and monitoring expertise on the financial reporting timeliness. We find that experiential expertise of audit committee chairs reduces the delay in the audit report lag resulting in more effective audit committee chairs, at least in the face of financial reporting timeliness. We also find that monitoring expertise of audit committee chairs have a significant negative impact on the audit report lag and hence improve the financial reporting timeliness. These are important findings from practice, academic and public policy perspectives.

Keywords

Audit committee chair, financial reporting timeliness, financial expertise, experiential expertise, monitoring expertise, audit report lag, corporate governance

Audit committee chair and financial reporting timeliness: A focus on financial, experiential and monitoring expertise

1. Introduction

Recent governance changes have placed a particular burden on audit committees and their members. Their workload has grown significantly, with a broad set of responsibilities requiring a great deal of diligence in every aspect of their work. The role of the audit committee chair is critical in supporting the audit committee's ability to carry out its responsibilities effectively. It has been argued that the audit committee needs a chair with the knowledge and commitment to drive the committee's work (Bromilow and Keller, 2011). However, a specific focus on the chair of the audit committee has been missing in the extant academic research.

The audit committee chair is considered the *"CEO of the audit committee"* (Ernst & Young 2011, p8) and the *"focal point for the committee's relations with the board, the CFO, and the internal and external auditors"* (Schmidt and Wilkins 2013, p227). The chair has greater responsibility than other audit committee members for financial reporting failures and therefore plays a pivotal role in overseeing financial reporting and essentially determining the effectiveness of the audit committee (Bromilow and Keller, 2011). Recent research has found the role played by the audit committee chair significantly reflects that of a person who is in charge of steering a group of people (PriceWaterhouseCoopers, 2003; Turley and Zaman, 2007; Ernest and Young, 2011). This role involves ensuring adequate information flows within and to and from the audit committee, ensuring an open relationship between the committee and management, internal auditors, and external auditors, setting the agenda for audit meetings, providing important mediation between the auditor and management team on financial reporting issues, and leading monitoring of the external auditor (Turley and Zaman, 2007; Tanyi and Smith, 2015). These tasks can have a direct impact on the way the audit committee behaves and responds to its duties. Yet, given the important role played by the

audit committee chair, research examining audit committee chair characteristics¹, specifically in relation to financial reporting timeliness has been lacking. In this paper we therefore consider the characteristics of the audit committee chair in helping improve financial reporting timeliness.

Prior research suggests that the timely provision of accounting information plays an important role in firm value (Beaver et al., 1980; Schwartz and Soo, 1996; Blankley et al., 2014) and in reducing the information asymmetry of financial information (Jaggi and Tsui, 1999; Lee et al., 2009). Furthermore, financial reporting timeliness has also been shown to significantly increase the quality of earnings, reduce the chances that investors' will be defrauded, and reduce uncertainty in evaluations of potential investments and expected payoffs (Feltham, 1972; Hakansson, 1977; Bushman and Smith, 2001). This is even more important in the current information age where technology, media and a connected globalised world make the relevance-reliability dilemma even more profound. Investors are able to choose from a proliferation of investment markets that are engaged in high frequency trading with reduced obstacles to capital flow, resulting in increased market volatility (Sultana et al., 2015). Hence, the demand for the timely provision of auditor-verified accounting information is crucial to capital market participants. Moreover, recent regulatory changes in the UK and US suggest financial reporting timeliness is also a priority for regulators (Behn et al., 2006; FASB, 2010; Doyle and Magilke, 2013; Schmidt and Wilkins, 2013).

In this study we investigate the impact of a comprehensive range of audit committee chair characteristics on the financial reporting timeliness of UK FTSE-350 companies between 2007 and 2010. Specifically, we investigate the impact of financial, experiential and monitoring expertise of the audit committee chair on the financial reporting timeliness by companies in our sample. We find that experiential expertise of audit committee chairs reduces the delay in the audit report lag resulting in more effective audit committee chairs, at least in the face of financial reporting timeliness. We also find that monitoring expertise of audit committee chairs has a significant negative impact on the audit report lag and hence improves the financial reporting timeliness. Our

¹ Carcello et al., (2011, p26) report this as "an unfortunate oversight" and a field "worthy of future study".

findings are important from academic and public policy perspectives. The remainder of the paper proceeds as follows: the next section presents the hypotheses development. Section three describes the sample as well as our variables, while our empirical analysis and findings are presented in section four. We present our conclusions in section five.

2. Hypotheses Development

Following the extant prior literature on audit committee effectiveness, we focus specifically on financial, experiential and monitoring expertise of the audit committee chair. The audit committee chair has the greatest responsibility for overseeing the financial reporting process and thus is more likely to be held accountable if anything goes wrong (Tanyi and Smith, 2013). Hence, the following hypotheses focus specifically on the characteristics of the audit committee chair in helping constrain the audit report lag.

2.1 Audit Committee Chair Financial and Experiential Expertise

Due to the complex nature of financial reporting, governance regulators around the globe have shown considerable interest in the financial expertise of audit committee members². Numerous studies have examined the financial expertise of audit committee members in the financial reporting process (Abbott *et al.*, 2004; Agrawal and Chadha, 2005; Carcello *et al.*, 2006; Krishnan and Visvanathan, 2008; Dhaliwal *et al.*, 2010) and found a direct link between financial expertise of the audit committee and various financial reporting quality related issues. More recently, Bruynseels and Cardinaels (2014) find that the proportion of financial experts on the audit committee is positively related to the demand for audit effort. He and Yang (2014) report that the proportion of

² In the United States, the Sarbanes-Oxley Act (2002) mandates audit committees to include at least one financial expert and requires the rest of the members to be financially literate. While the Australian governance code (ASX, 2010) recommends all members should have accounting and financial expertise. In the United Kingdom, the UK Corporate Governance Code (2014, p 17) recommends that '*at least one member of the audit committee should have significant, recent and relevant financial experience*'. The Financial Reporting Council is currently proposing to replace the requirement for an audit committee member to have 'recent and relevant financial experience' to at least one member to have 'competence in accounting and/or auditing' (FRC, 2015).

financial experts on the audit committee is related to significantly lower earnings management level, whilst Schmidt and Wilkins (2013) and Sultana et al., (2015) note how companies with more accounting financial expertise on the audit committee are associated with improved financial reporting timeliness.

Given these arguments, and the importance of the audit committee chair as a focal point for audit committee effectiveness, we suggest there is a greater onus on the audit committee chair to be financially literate. In fact, Schmidt and Wilkins (2013) and report that audit committee chairs that have accounting financial expertise provide the most-timely disclosures. We therefore expect audit committee chair financial expertise to be more valuable than overall audit committee financial expertise, as the audit committee chair is likely to be more active in helping constrain the audit report lag thereby improving financial reporting timeliness. From this discussion, the following hypothesis is proposed;

H1: The audit committee chair financial expertise are negatively associated with financial reporting timeliness.

There is a very strong view on the impact of experiential expertise of audit committee members on their ability to fulfil their duties competently and effectively. A view taken in earlier empirical studies (Kosnik, 1990; Beasley 1996) was that longer board service allows directors to gain more firm specific knowledge and enables them to better equip themselves to deal with complicated committee proceedings, hence resulting in improved performance in protecting shareholder's interests. For example, Beasley (1996) report that firms with long average board tenure of outside directors are less likely to have financial reporting fraud and Bedard *et al.*, (2004) find that audit committee members with longer tenure on the board are associated with less aggressive earnings management. More recently, Abernathy et al., (2014) report that audit committee members with longer tenure have a significant negative impact on audit report lag. Similarly Sun and Liu (2014), find that audit committee members' board tenure is negatively associated with bank risk measured

by total risk or idiosyncratic risk. They also find that firm performance is more positively associated with long board tenure, consistent with the notion that audit committee effectiveness may increase risk management effectiveness.

However, there are a small number of studies which argue to the contrary to longer term tenure benefits. For example, Vafeas (2003) argues that longer board service might compromise audit committee directors' independence by bringing directors and management closer resulting in directors befriending management. In another recent study, Chan *et al.*, (2013) have also documented a negative association between the proportion of audit committee members serving longer on the board and audit fees. Nonetheless, the overall argument is skewed in favour of longer term tenure of audit committee members benefiting financial reporting quality. As the role of the audit committee chair is more pivotal, we therefore propose that audit committee chair tenure will also have a direct effect on the audit report lag. In light of the above discussion, this study proposes the following hypothesis;

H2: Audit committee chair experiential expertise are negatively associated with financial reporting timeliness.

2.3 Audit Committee Chair Monitoring Expertise

We identify monitoring expertise of the audit committee chair through the holding of multiple committee seats. The monitoring role of directors involves overseeing management in order to reduce potential agency problems. This is undertaken through various board oversight committees and directors may be required to sit on more than one committee, especially if board size does not allow much flexibility. There are many independent directors who devote significant time to monitoring responsibilities by concurrently serving on multiple oversight committees (Heidrick & Struggles, 2007). This can broaden understanding of the firm and its operating environment, thereby enhancing the ability of independent directors to make better-informed decisions. Consequently, Faleye *et al.* (2011) argue that independent directors who concurrently serve on

multiple oversight committees are more monitoring-intensive and devote significant time and efforts to oversight duties. These arguments have also been demonstrated in the scant literature. Cook and Wang (2010) find that directors serving on other committees are better informed than other directors as they have an informational advantage over other directors. Similarly, Vafeas (2005) note that assigning more monitoring duties to individual independent directors can lead to improvements in oversight quality and reduction in potential agency costs. As a result, Faleye *et al.*, (2011) note how these monitoring improvements can cause firms to exhibit greater sensitivity of CEO turn over to firm performance, lower excess executive compensation, and reduce earnings management.

The audit committee chair has the responsibility of overseeing the audit committee and hence the financial reporting and internal control processes. However, in addition to chairing the audit committee, he/or she may also be required to sit on additional board oversight committees. By serving on multiple monitoring committees the audit committee chair can gain a more complete understanding of the firm. This broader view can aid the audit committee chair in making more informed decisions and may therefore be a better aid in improving financial reporting timeliness. We therefore hypothesise:

H3: Audit committee chair monitoring expertise are negatively associated with financial reporting timeliness

3 Sample and Variables Selection

The study sample for this study comprises of FTSE-350 companies between 2007 and 2010. In common with most studies in this area this study excludes all financial firms, principally insurance companies and banks, as they have different regulatory environments, as well as different reporting conventions to other companies. The firms from the financial sector and those with missing audit committee and financial data were dropped from the final sample. Hence, the final sample for this study equals 987 firm observations. Table 1 contains details of the sampling process used. The main

sources of information for the study were companies' published annual report and accounts for the years 2007 to 2010. These annual reports were either obtained directly from the companies' websites or accessed using the *FAME* database. The audit committee variables and other board variables data were manually collected.

INSERT TABLE 1 HERE

3.2 Dependent Variable – Audit Report Lag

Annual audited financial statements and the annual report are often the only reliable source of information available to existing and potential investors (Leventis *et al.*, 2005). The timely publication of these documents adds information content and impacts the value of the firm (Sultana *et al.*, 2015), thus making the audit report lag an important and fundamental issue to consider. The dependent variable, audit report lag, is the number of days between a firm's fiscal year-end and the audit report date³.

3.3 Independent Variables – Audit Committee Chair expertise

We examine the audit committee chair expertise from three perspectives; financial, experiential and monitoring expertise. In relation to financial expertise, we firstly capture the broader definition of financial expertise of audit committee chairs⁴. Prior research suggests it may be useful to disaggregate this into accounting-specific and other expertise, with some evidence that accounting-

³ Some studies have also utilises financial statement restatement periods (Schmidt and Wilkins, 2013) and the filing of 10 K reports (Abernathy *et al.*, 2014) as proxies for financial reporting timeliness however due to data availability issues this study focuses on audit report lag days.

⁴ The current UK Corporate Governance Code (2014), or any of its predecessors, does not provide a precise definition of what it means by financial expertise. As a result, for the purposes of this study, we followed the SEC's definitions, which is also used by DeFond *et al.*, (2005) and other US-based studies whereby an *accounting financial expert* (AFE) is defined as a person who has previously held or currently holds a job directly related to accounting and auditing expertise. These include CPAs, CFOs, CAOs, controllers, and auditors. A *non-accounting financial expert*, on the other hand, is defined as a person who has experience as an investment banker, financial analyst, or any other financial management role; or experience obtained from supervising the preparation of financial statements (e.g., chief executive officer or company president). We follow this with appropriate modifications for the UK context in identifying financial expertise generally and distinguishing between accounting and non-accounting expertise.

specific presence on audit committees may actually lead to better quality financial reporting (Krishnan and Visvanathan, 2008; 2009). Therefore, we then examine additional separate variables representing the audit committee chair holding accounting and non-accounting-specific expertise. Secondly, we capture the experiential expertise of the audit committee chair by focusing on their tenure (i.e. length of board service). In line with extant research, (Beasley, 1996; Dhaliwal *et al.*, 2010), we suggest that length of tenure of the audit committee chair is linked to the experience they have gained over time and expect that longer tenured audit committee chairs are helpful in reducing the audit report lag. We further analyse tenure by focusing on those audit committee chairs that have an excess of six years tenure on the company's board as well as those with an excess of nine years tenure on the board⁵. In relation to audit committee chair monitoring expertise, we capture the number of additional committee seats held by the audit committee chair. To explore this further, we also have variables to capture those audit committee chairs that hold at least one additional committee seat, as well as those that hold at least two additional seats. Prior literature suggests that holding of multiple committee seats increases monitoring capability of non-executive directors (Faleye *et al.*, 2011).

INSERT TABLE 2 HERE

3.4 Independent Variables – Other Control Variables

We have a composite variable (ACE) representing instances where audit committees comprise at least three members, contained at least one financial expert, all members being independent and met at least three times during the financial year, thereby representing companies in full compliance with current governance recommendations in respect of audit committee characteristics. Prior research suggests that such audit committees are helpful in improving financial reporting quality

⁵ This is motivated by current governance regulation in the UK which raises concerns about the independence of non-executives with extended tenure, specifically raising concerns about those with tenure exceeding six years and categorizing those non-executives with tenure in excess of nine years as not being independent.

(Abbott *et al.*, 2003; Zaman *et al.*, 2011). We use the proportion of independent non-executive directors serving on the board of directors to represent board independence since, from an agency theory perspective, the ability of the board to act as an effective monitoring mechanism depends on its independence from management (Beasley, 1996; O'Sullivan, 2000). We include the proportion of ownership held by executive directors as a control variable since prior research shows that the ownership of inside directors constrains opportunistic behaviour of directors (Warfield *et al.*, 1995; Garcia-Meca and Sanchez-Ballesta, 2009). Other than these audit committee and board variables, in line with prior research, we have a number of other firm specific control variables that are expected to affect audit report lag. These include firms audited by big 4 firms, proportion of equity held by the block-holders, firm size, firm financial performance, financial leverage, complexity level and an acquisition (Jaggi and Tsui, 2003; Leventis *et al.*, 2005; Sultana *et al.*, 2015).

4. Key Findings

4.1 Descriptive Statistics

The descriptive statistics in table 3 show that the mean value for audit report lag stands at around 64 days with a median value of 62 days. Of particular interest to our study are the descriptive statistics in relation to the audit committee chair characteristics. The dummy variable representing audit committee chair financial expertise shows that 92 percent of audit committee chairs are financial experts, 72 percent of audit committee chairs are considered accounting experts and 21 percent are non-accounting experts. The average tenure of audit committee chairs stands at 54 months with a median tenure of 48 months. However, the range of audit committee chairs tenure is a minimum term of 1 month to a maximum term of 288 months. Further analysis shows that 27 percent of audit committee chairs have served for more than 6 years on the company's board and 7 percent of audit committee chairs have served for more than 9 years. The average number of additional committee seats held by the audit committee chair stands at 1.65, with a range of 0 to 3 for other committee

seats. 93 percent of audit committee chairs sit on at least 1 additional committee and 68 percent of audit committee chairs hold at least 2 additional committee seats.

INSERT TABLE 3 HERE

In addition to the characteristics of audit committee chairs, we also employ a composite variable to identify audit committees that conform to all of the recommended recommendations in terms of size, independence, meeting frequency and expertise (ACE). 74 per cent of audit committees in our sample satisfy all four of the recommended characteristics. We have also captured the proportion of independent non executive directors on the board of directors since the current regulation requires firms to disclose such directors in the annual report. 48.3 percent of board members are independent. The average ownership level of executive directors in our sample is 4.2 per cent with a median ownership level of only 0.24 per cent. The descriptive statistics of the other control variables suggests that 95 percent of audits are undertaken by one of the big 4 auditing firms, block holders hold on average 38 percent of total shares the mean ROA of firms is 9.08 percent; gearing levels are on average 19.28 percent, stock and receivable to total assets ratio of 27.28 percent and 58 percent of firms were involved in an acquisition.

4.2 Correlations

Correlations are interesting in this type of study, as they not only highlight the univariate association between the audit report lag and the explanatory variables but also identify significant correlations among the independent variables. Column one of table 4 shows that audit committee chair financial expertise and non-accounting specific expertise are significantly negatively correlated with audit report lag. Similarly, audit committee chair tenure as well as chairs over six year tenure are significantly negatively correlated with the audit report lag. Audit committee chair additional committee seats are also significantly associated with audit report lag. These findings suggest that

audit committee chairs with financial knowhow, accumulated experience and monitoring expertise are more effective in reducing audit report lag and hence improve financial report timeliness. Of course, since we have more than one measure of various audit committee chair variables we see significant correlations between these linked variables.

INSERT TABLE 4 HERE

4.3 Multivariate Regression Analysis

Table 5 presents the multivariate regression results. It can be seen that the tenure of the audit committee chair (i.e. experiential expertise) has a statistically significant and negative impact on the audit report lag. Previously, in relation to audit committee members in general, Abernathy et al. (2014) report that longer tenure on the board is associated with reduced audit report lag. The additional committee seats of the audit committee chair (i.e. monitoring expertise) also has a statistically significant and negative impact on the audit report lag. Taken together these findings suggest that audit committee chairs with experiential and monitoring expertise are more effective in reducing delay in the audit report and hence improving the timeliness of financial reporting. The impact of audit committee chair financial expertise, though negatively correlated, is statistically insignificant. Our findings are important from academic and public policy perspectives. The profound positive impact of the experiential and monitoring expertise of audit committee chairs on the audit report lag adds significantly to academic literature in relation to financial reporting timeliness. The current UK Corporate Governance Code (2014) indicates that non-executives who have tenure longer than six years may not be independent and directors with tenure longer than nine years are non-independent. Yet, this study documents that audit committee chairs serving longer on the boards have profound positive impact on the financial reporting timeliness. Therefore, we suggest there is a need to revisit these guidelines as these policy recommendations may not be

equally pertinent to all the non-executives regardless of their role in the organisation and might actually be counter intuitive in certain aspects of the financial reporting process.

INSERT TABLE 5 HERE

From table 5, it can also be seen that composite variable representing audit committee compliance with the regulatory requirements has a statistically significant and negative impact on the audit report lag. This shows that companies in full compliance with current governance recommendations in respect of audit committee characteristics are more effective in improving the timeliness of financial reporting. The variable representing proportionate executive ownership also has a statistically significant and negative impact on the audit report lag, suggesting support for argument that such directors behave in the interest of shareholders (Garcia-Meca and Sanchez-Ballesta, 2009). The regression results in relation to other variables show that the firms audited by the big 4 firms has a reduced audit report lag. The size of the firm has a negative impact however financial leverage, complexity level and firms involved in an acquisition have a positive impact on the audit report lag.

INSERT TABLE 6 HERE

In table 6 we explore our findings in more detail. In regressions 2 and 3 we investigate the impact of accounting and non-accounting expertise on audit report lag however both these distinctions of financial expertise are statistically insignificant. The significant impact of experiential and monitoring expertise in table 5 has motivated us to explore these results in more detail. In regressions 4 and 5 we extend our investigation of audit committee chair tenure by substituting this variable with variables representing audit committee chair tenure in excess of six years and in excess

of nine years with dummy variables. Columns three and four of the regression table 6 suggests that audit committee chairs exceeding tenure in excess of six years having a significantly profound impact in reducing the audit report delay. This finding coupled with the tabled 5 results, confirms that experiential expertise of audit committee chairs, i.e. accumulated knowledge and experience from serving longer on the board, results in more effective audit committee chairs, at least in the face of improved financial reporting timeliness. Secondly, in the regression models 5 and 6, we create two more variables, one representing the number of audit committee chairs holding at least 1 additional committee seats and the other representing the number of audit committee chairs holding at least 2 additional committee seats. The results show that both these variables have a statistically significant and negative impact on the audit report delay, suggesting that monitoring expertise of the audit committee chair play a significant role in reducing audit report delay and hence improving financial reporting timeliness.

4.4 Alternative Variables and Tests

Due to the nature of our research approach, in particular the use of financial statements to collect data on our audit committee variables, we were able to compile a comprehensive dataset of audit committee characteristics. This allowed us to test the impact of a number of additional audit committee variables on the audit report lag but the individual results are not presented here due to lack of significance and space constraints⁶. This section briefly describes the alternative variables we have employed in the unreported analysis. First, as a further extension to our data on the expertise of audit committee chair, we collected data on the financial, experiential and monitoring expertise of audit committee members to investigate whether such expertise of audit committee members had an impact on the audit report lag. None of these variable were statistically significant in any of our regressions. Second, we also collected data on the other directorships held by the audit committee chair as well as by the other audit committee members to investigate whether audit

⁶ All the unreported results are available from the authors on request.

committee chair or non-chair members busyness had an impact on the financial reporting timeliness. However these variables were also statistically insignificant.

Other than these additional expertise and busyness variables we have also collected data on audit committee composition. This includes data on audit committee compliance with regulations in relation to individual four elements of audit committees recommended by UK regulators⁷. We find that audit committees that meet at least three times a year has a negative and significant impact on the audit report lag period, suggesting a profound impact of diligent audit committees in improving financial reporting timeliness.

5. Conclusions

Recent research has found the role played by the audit committee chair significantly reflects that of a person who is in charge of steering a group of people. This is consistent with how the audit committee chair has been viewed by various accounting bodies. This study therefore seeks to investigate whether the financial, experiential and monitoring expertise of the audit committee chair has any impact in improving financial reporting timeliness. We find that audit committee chairs with experiential and monitoring expertise are more effective in constraining the audit report lag and improve financial reporting timeliness. These findings add significantly to our understanding of the importance of the audit committee chair expertise in relation to financial reporting timeliness.

To better understand the different caveats discussed in this study, we suggest future research takes a more in depth and qualitative understanding of the role of the audit committee chair in the wider governance arena. Like this study, existing research on audit committees is conducted almost exclusively in the context of agency theory. Yet, research into corporate governance should acknowledge the broader social responsibility role of organisations and relevance

⁷ Current governance recommendations in respect of audit committee characteristics include; audit committees comprise at least three members, contained at least one financial expert, all members being independent and met at least three times during the financial year.

to stakeholders other than shareholders. This would relate more closely with current expectations of governance oriented research from a broad range of theoretical paradigms.

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Tables

Table 1 (a): Sample selection process

Description	2007	2008	2009	2010	Total
FTSE350	350	350	350	350	1400
Financial firms	75	75	75	75	300
Missing AC and DataStream information	27	27	26	25	105
Outliers	2	2	2	2	8
Final sample size	246	246	247	248	987

Table 1 (b): Industry distribution of sample firms

Industry Name	N	Percentage
Consumer Goods	216	21.88
Industrials	294	29.79
Mineral extraction	79	8.00
Services	342	34.65
Utilities	56	5.67
Final Sample Size	987	100

Table 2: Variable Definitions

Variable Label	Definitions
Audit report lag	Number of days between a firm's fiscal year-end and the audit report date.
AC chair financial expertise	Dummy variable (=1 if audit committee chair has is a financial expert; =0 otherwise)
AC chair accounting expertise	Dummy variable (=1 if audit committee chair has is an accounting expert; =0 otherwise)
AC chair non-accounting expertise	Dummy variable (=1 if audit committee chair is a non-accounting expert; =0 otherwise)
AC chair tenure	Audit committee chair length (months) of service on the board
AC chair tenure over 6 years	Dummy variable (=1 if audit committee chair length of service on the board exceeds 6 years; =0 otherwise).
AC chair tenure over 9 years	Dummy variable (=1 if audit committee chair length of service on the board exceeds 9 years; =0 otherwise).
AC chair additional committees	Number of additional committee seats held by the audit committee chairs
AC chair 1 plus committees	Proportion of audit committee chairs holding at least 1 additional committee seats
AC chair 2 plus committees	Proportion of audit committee chairs holding at least 2 additional committee seats
ACE	Dummy variable (=1 if audit committee has 3 or more members; contains 1 financial expert; comprises only independent directors and has held 3 or more meetings during the year; =0 otherwise)
% Independent directors	Percentage of board represented by independent non-executive directors
% Executive share ownership	Percentage of equity held by executive directors
Big4	Dummy variable (=1 if audited by PricewaterhouseCoopers, KPMG, Deloitte and Touche or Ernst & Young; =0 otherwise)
% Block-holding	Proportion of equity held by the block holders
Log total assets	Log of total assets
% ROA	Return on assets
% Gearing	Debt to equity ratio
Log of subsidiaries	Log of subsidiaries
Receivables-inventory ratio	Ratio of trade receivables and inventory to total assets
Acquisition	Dummy variable (=1 if the company made an acquisition in the last year =0 otherwise)

Table 3: Descriptive Statistics

Variables¹	Mean	Median	St.dev	Minimum	Maximum
Audit Report Lag	63.84	62.00	15.491	25	131
Log Audit Lag	1.79	1.79	0.10	1.40	2.12
AC chair financial expertise	.92	1.00	.266	0	1
AC chair accounting expertise	.72	1.00	.450	0	1
AC chair non-accounting expertise	.21	.00	.404	0	1
AC chair tenure (months)	54.33	48.00	37.119	1	288
AC chair tenure over 6 years	.27	.00	.445	0	1
AC chair tenure over 9 years	.07	.00	.259	0	1
AC chair additional committees	1.65	2.00	.673	0	3
AC chair 1 plus committees	.93	1.00	.258	0	1
AC chair 2 plus committees	.68	1.00	.466	0	1
ACE	.74	1.00	.437	0	1
% Independent directors	48.32	50.00	11.17	10.53	85.71
% Executive share ownership	4.02	0.24	11.04	0.00	67.74
Big4	0.95	1.00	0.21	0.00	1.00
% Block-holding	38.34	38.19	17.84	0.00	92.40
Log total assets	9.04	8.97	0.66	7.52	11.19
% ROA	9.08	7.63	10.80	-83.57	118.56
% Gearing	19.28	16.89	16.91	0.00	80.67
Log of subsidiaries	1.22	1.26	0.39	0.00	2.23
Stock-inventory ratio	27.28	25.02	19.53	0.00	97.92
Acquisition	0.58	1.00	0.49	0.00	1.00

¹ Definitions of variables are given in table 1

Table 4: Correlation Matrix¹

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1 Log Audit Lag	1																				
2 Chair financial expertise	<i>-.071</i>	1																			
3 Chair accounting expertise	.015	.460	1																		
4 Chair non-accounting expertise	<i>-.064</i>	.147	-.811	1																	
5 Log chair tenure	-.109	.040	-.113	.151	1																
6 Chair tenure over 6 years	<i>-.076</i>	<i>-.059</i>	-.141	.118	.619	1															
7 Chair tenure over 9 years	.025	<i>-.022</i>	-.182	.187	.397	.457	1														
8 AC chair additional committees	<i>-.081</i>	.003	.051	<i>-.055</i>	.090	.035	<i>-.005</i>	1													
9 AC chair 1 plus committees	<i>-.075</i>	<i>-.034</i>	.029	<i>-.055</i>	.054	.037	<i>-.006</i>	.682	1												
10 AC chair 2 plus committees	<i>-.068</i>	.014	<i>.076</i>	<i>-.076</i>	<i>.085</i>	.040	.011	.890	.406	1											
11 ACE	-.184	<i>.069</i>	<i>-.024</i>	<i>.072</i>	.048	<i>-.049</i>	<i>-.041</i>	<i>-.033</i>	<i>-.027</i>	<i>-.029</i>	1										
12 % Independent directors	-.133	<i>-.001</i>	<i>-.053</i>	.058	.048	<i>-.003</i>	<i>-.059</i>	-.202	-.187	-.205	.433	1									
13 % Executive share ownership	<i>.069</i>	.022	.039	<i>-.030</i>	<i>-.031</i>	.015	.059	.007	.026	<i>-.008</i>	-.197	-.227	1								
14 Big4	-.175	<i>.065</i>	<i>.079</i>	<i>-.045</i>	.033	.010	<i>-.053</i>	.009	<i>-.042</i>	.028	.228	.120	-.166	1							
15 % Block-holding	.105	-.096	<i>-.002</i>	<i>-.061</i>	.016	<i>-.013</i>	.014	.051	<i>.063</i>	.047	-.098	-.110	-.104	<i>.075</i>	1						
16 Log total assets	-.255	.130	<i>-.040</i>	.130	.022	<i>-.026</i>	<i>-.076</i>	-.159	-.145	-.195	.362	.451	-.187	.183	-.357	1					
17 % ROA	.030	<i>-.012</i>	<i>-.018</i>	.013	<i>-.054</i>	.001	<i>-.003</i>	<i>-.026</i>	<i>-.026</i>	<i>-.012</i>	<i>-.015</i>	<i>-.028</i>	<i>.076</i>	<i>-.065</i>	<i>-.028</i>	-.216	1				
18 % Gearing	-.121	<i>.066</i>	.036	.003	<i>-.006</i>	<i>-.059</i>	<i>-.010</i>	.014	<i>-.007</i>	<i>-.001</i>	.110	.051	-.137	.199	.019	.311	-.247	1			
19 Log of subsidiaries	.022	.036	<i>-.019</i>	.045	.018	.025	<i>-.032</i>	<i>-.041</i>	<i>-.077</i>	<i>-.059</i>	.110	.114	-.092	.118	<i>-.043</i>	.296	<i>-.058</i>	.023	1		
20 Stock-inventory ratio	.093	<i>-.072</i>	<i>-.022</i>	<i>-.023</i>	.021	.026	<i>-.063</i>	.102	.089	.129	<i>-.026</i>	-.103	<i>-.049</i>	.045	.020	-.224	.027	-.275	<i>-.045</i>	1	
21 Acquisition	<i>-.011</i>	.009	<i>-.037</i>	.047	<i>-.005</i>	<i>-.022</i>	<i>-.072</i>	-.107	-.092	-.116	.123	.042	-.105	<i>.081</i>	<i>-.076</i>	.229	<i>-.040</i>	<i>.071</i>	.265	<i>-.066</i>	1

¹**Bold and italic font represent significant correlations at 1% and 5% respectively**

Table 5: The Impact of Audit Committee Chair Expertise on Financial Reporting Timeliness (*, **, * represent significant correlations at 1%, 5% and 10% respectively)**

Variables	Expected Sign	Coefficient	T Value	VIF
AC Chair financial expertise	-	-.002	-.135	1.068
Log of AC chair tenure	-	-.026	-2.916***	1.036
AC Chair additional committees	-	-.014	-2.790***	1.141
ACE	-	-.020	-2.244**	1.401
% Independent directors	-	.000	-.668	1.551
% Executive share ownership	-	-.001	-2.056**	1.206
Big4	-	-.051	-2.918***	1.186
% Block-holding	-	.000	.303	1.337
Log total assets	-	-.053	-7.073***	2.514
% ROA	-	-.001	-1.596	1.181
% Gearing	+	.000	1.683*	1.393
Log of subsidiaries	+	.034	3.703***	1.282
Stock-inventory ratio	+	.000	2.625***	1.359
Acquisition	+	.017	2.499**	1.193
Industry Dummy		Included		
Year Dummy		Included		
Constant		2.362	33.65***	
F Test		10.481***		
(Adjusted) R2		.184		

Table 6: The Impact of Audit Committee Chair Expertise on Financial Reporting Timeliness (*, **, * represent significant correlations at 1%, 5% and 10% respectively)**

Variables	AC Chair Financial Expertise				AC Chair Experiential Expertise				AC Chair Additional Committee Seats			
	Accounting		Non-accounting		Tenure>6		Tenure>9		1 additional seat		2 additional seats	
	Coefficient	T Value			Coefficient	T Value	Coefficient	T Value	Coefficient	T Value	Coefficient	T Value
Chair financial expertise					-.005	-.422	-.003	-.266	-.003	-.225	-.001	-.080
Chair accounting expertise	.010	1.347										
Chair non-accounting expertise			-.013	-1.589								
Log of chair tenure	-.024	-2.716***	-.023	-2.597**					-.027	-3.083***	-.026	-2.943***
Chair tenure over 6 years					-.023	-3.236***						
Chair tenure over 9 years							-.009	-.701				
Chair additional committees	-.014	-2.857***	-.014	-2.879***	-.015	-2.962***	-.016	-3.122***				
Chair 1 plus committee seats									-.033	-2.599***		
Chair 2 plus committee seats											-.019	-2.685***
ACE	-.020	-2.266**	-.019	-2.186**	-.021	-2.453**	-.020	-2.239**	-.020	-2.281**	-.020	-2.253**
% Independent directors	.000	-.608	.000	-.699	.000	-.745	.000	-.824	.000	-.637	.000	-.599
% Executive share ownership	-.001	-2.109**	-.001	-2.098**	-.001	-2.046**	-.001	-2.000**	-.001	-1.989**	-.001	-2.112**
Big4	-.053	-3.024***	-.053	-3.034***	-.050	-2.874***	-.052	-2.953***	-.053	-3.042***	-.050	-2.880***
% Block-holding	.000	.331	.000	.250	.000	.133	.000	.218	.000	.471	.000	.248
Log total assets	-.053	-7.136***	-.053	-7.056***	-.054	-7.125***	-.054	-7.127***	-.051	-6.877***	-.054	-7.101***
% ROA	.000	-1.571	-.001	-1.590	.000	-1.525	.000	-1.526	.000	-1.557	.000	-1.574
% Gearing	.000	1.664*	.000	1.645	.000	1.648	.000	1.733*	.000	1.606	.000	1.663*
Log of subsidiaries	.034	3.722***	.034	3.739***	.034	3.768***	.034	3.697***	.031	3.478***	.033	3.676***
Stock-inventory ratio	.000	2.663***	.000	2.644***	.000	2.642***	.000	2.507**	.000	2.631***	.001	2.662***
Acquisition	.018	2.568**	.018	2.546**	.017	2.434**	.017	2.412**	.018	2.623***	.017	2.489**
Industry Dummy	Included		Included		Included		Included		Included		Included	
Year Dummy	included		included		included		Included		Included		Included	
Constant	2.355	33.741***	2.361	33.889***	2.337	33.619***	2.338	33.397***	2.357	33.619***	2.354	33.792***
F Test	10.588***		10.631***		10.597***		10.007***		10.420***		10.447***	
(Adjusted) R2	.186		.186		.186		.176		.183		.183	